



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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June 5, 2009

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM:

Wendy L. Watanabe
Auditor-Controller

**SUBJECT: FISCAL REVIEW OF EGGLESTON YOUTH CENTER, INC. – A FOSTER
FAMILY AGENCY AND GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on the fiscal operations of Eggleston Youth Center, Inc. (EYC or Agency) from July 1, 2003 through June 30, 2004. The Department of Children and Family Services (DCFS) contracts with EYC to serve as a Foster Family Agency (FFA) to recruit, certify, train and support foster family homes. EYC is also licensed to operate three group homes (GHs), one with a capacity of 34 children and two with a capacity of six children each. EYC is located in the First Supervisorial District.

During our review period, the EYC FFA had 144 children placed by Los Angeles County in approximately 57 certified foster homes. The California Department of Social Services (CDSS) requires that EYC pay at least 40% of the FFA funds it receives directly to its certified foster parents. EYC received \$1,221,116 in FFA funds and paid \$491,302 (40%) directly to foster parents.

In addition, for children placed in the Agency's group homes, EYC received \$5,234 per child per month based on a CDSS determination. EYC received \$2,767,147 for children placed in the group homes.

Scope

The purpose of our review was to determine whether EYC complied with its contract, and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated the adequacy of EYC's expenditure and

revenue documentation, internal controls and compliance with applicable federal, State and County fiscal guidelines governing FFA and GH foster care funds.

Summary of Findings

We identified a total of \$37,806 in unallowable costs and \$43,842 in unsupported/inadequately supported costs. Additionally, DCFS records show potential overpayments made to the Agency.

EYC needs to strengthen its internal controls over its accounting, disbursement and bonus procedures. DCFS needs to resolve the questioned costs and potential overpayments. Additionally, DCFS needs to collect any disallowed amounts and ensure that EYC takes action to address the recommendations in this report so that the actions result in permanent changes.

Review of Report

We discussed our report with EYC management on August 26, 2008. The Agency will provide their response to the report directly to DCFS. DCFS will incorporate the Agency's response into a Fiscal Corrective Action Plan that will be submitted directly to the Board of Supervisors. We thank EYC's management and staff for their cooperation during our review.

Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MWM

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Audit Committee

Eggleston Youth Center, Inc.
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified \$37,806 in unallowable costs and \$43,842 in unsupported/inadequately supported costs. In addition, there are potential DCFS overpayments. Details of these costs and potential overpayments are discussed below.

Applicable Regulations and Guidelines

EYC is required to operate its FFA and GHs in accordance with the following applicable federal, State and County regulations and guidelines:

- FFA and GH Contract, including Exhibits C and I, respectively, and the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Costs

We identified \$37,806 in unallowable FFA/GH expenditures:

- \$10,937 in payments for medical insurance for employees' dependents. Section 8g (2) of the Circular A-122 states that fringe benefits are allowable provided such benefits are granted in accordance with established written organization policies. EYC's Personnel Handbook states that dependent medical insurance is offered to eligible full-time employees at the employee's expense. The use of foster care funds to pay for dependent medical insurance is in conflict with EYC's personnel policies.
- \$26,819 in penalty and interest payments consisting of:
 - \$16,374 in late payment penalties and interest on delinquent tax, general liability insurance and telephone system lease payments
 - \$10,300 in interest on the Agency's line of credit
 - \$85 in parking citations
 - \$60 in non-sufficient funds fees

Circular A-122 Sections 16 and 23 and A-C Handbook Section D state that penalties and interest are not allowable.

- \$50 for a parking citation for a non-Agency vehicle.

Unsupported/Inadequately Supported Costs

A-C Handbook Section A.3.2 states that all expenditures shall be supported by original vouchers, invoices, receipts, timecards, mileage/travel logs, contract and loan agreements or other relevant documentation. We identified \$43,842 in expenditures that were either not supported or were inadequately supported. Specifically:

- \$33,839 for gasoline, registration, maintenance, lease costs and other vehicle-related expenditures. EYC did not maintain mileage logs or other records to allocate these expenses between EYC's County foster care programs and the Agency's other programs.
- \$7,465 for a 2003 tax payment charged to the GH program. EYC did not provide documentation to establish how the payment was related to the GH program.
- \$2,538 in administrative expenses allocated to the FFA/GH programs. EYC allocates its administrative costs based on program revenues. However, GH revenues inappropriately included some revenues from the Los Angeles County Office of Education (LACOE) educational programs and employee medical reimbursements. As a result, the administrative expenses charged to the FFA/GH programs were incorrectly allocated.

Recommendations

1. DCFS resolve the \$81,648 (\$37,806 + \$43,842) in questioned costs and collect any disallowed amounts.

EYC management:

2. Ensure that foster care funds are used for allowable expenditures to carry out the purpose and activities of the Agency.
3. Maintain adequate supporting documentation for all Agency expenditures, including original vouchers, invoices, receipts, timecards, mileage/travel logs, contract and loan agreements or other relevant documents.

Potential DCFS Overpayments

DCFS records show overpayments made to the Agency. DCFS and the Agency should work together to resolve the overpayments and DCFS should collect any verified overpayments. EYC's management should ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.

Recommendations

4. DCFS management work with EYC management to resolve the differences in the overpayment balances and take steps to recover any verified overpayments.
5. EYC management ensure that future payment discrepancies are immediately reported to DCFS and excess amounts are repaid promptly.

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted some contract compliance and internal control weakness issues. DCFS should ensure that EYC management takes action to address the issues discussed in this report, and monitor to ensure the actions result in permanent changes.

Accounting Practices

EYC established separate cost centers for all of their programs, except the LACOE educational programs. As a result, EYC inappropriately recorded LACOE program revenue as GH revenue. Similarly, EYC charged LACOE educational program expenditures to the GH cost center. This practice overstates both GH revenue and expenditures, and understates the LACOE educational program revenue and expenditures.

EYC was also recognizing employee medical reimbursements as GH program revenue. EYC management should discontinue the practice of recording LACOE program revenue and employee medical reimbursements as GH revenue.

EYC's Certified Public Accountant (CPA), in conjunction with an audit of EYC's 2003 financial statements, made a \$3,096 adjustment. The adjustment consisted of an expenditure to the GH program and a corresponding reduction to EYC's net assets. The stated purpose of the adjustment was to "adjust net assets to agree to balance at 2002 audit". However, the amount of the adjustment fell below the CPA's materiality threshold and was made "with no further review" or explanation. The effect of this adjustment is to reduce the net assets of EYC's GH program. Without an explanation documenting the specific reason(s) for the adjustment, we have no basis to assess its appropriateness.

Recommendations**EYC management:**

6. Establish a separate cost center for LACOE educational program revenue and expenditures and transfer any additional LACOE revenue/expenditures that were improperly charged to the County GH program.
7. Discontinue the practice of recording LACOE program revenue and employee medical reimbursements as GH program revenue.
8. Research the cause for the independent auditor's adjusting entry and ensure the correct program account is charged.

Bonuses

In March 2002, EYC's Board of Directors approved an 8% bonus for all full-time GH and Administration staff contingent upon the group homes exceeding 90% of its population capacity. In 2003, EYC's group homes exceeded the target. Bonuses of 4% were paid on July 15, 2003 and December 17, 2003. However, four eligible staff did not receive a bonus, and five other eligible staff were given bonuses of less than 8%. EYC management should ensure that bonuses are distributed in compliance with the Agency's Board approved policy.

Recommendation

9. EYC management ensure that bonuses are awarded to staff in compliance with Board approved policy.